

**APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY &  
SAN DIEGO GAS & ELECTRIC COMPANY FOR AUTHORITY TO REVISE THEIR  
NATURAL GAS RATES AND IMPLEMENT STORAGE PROPOSALS EFFECTIVE  
JANUARY 1, 2020 IN THE TRIENNIAL COST ALLOCATION PROCEEDING**

**(A.18-07-024)**

**(DATA REQUEST CA PUBLIC ADVOCATES-DR-006)**

**DATA RECEIVED: 10/12/2018**

**DATE RESPONDED: 10/25/2018**

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**QUESTION 1:**

At page 3 of Chapter 9 Testimony in A.18-07-024, SoCalGas states “For customer-related costs, the marginal demand measure is the number of customers.”

- (a) Please define the term “customer-related costs” as it is used in this testimony and state all categories of costs that are classified and included by SoCalGas as “customer-related costs.”
- (b) Please provide the basis for SoCalGas’ response to item (a), including any Commission decisions.
- (c) Please explain whether “customer-related costs” include both elements of fixed costs and variable costs.
- (d) Identify the “customer-related costs” which are considered fixed costs.
- (e) Identify the “customer-related costs” which are considered variable costs.

**RESPONSE 1:**

- (a) Per the original Long Run Marginal Cost (LRMC) decision for gas utilities, D.92-12-058, “Marginal customer-related costs measure the cost of a customer’s access to the gas utility’s system.”

As described at page 4 of Chapter 9, Customer-related marginal unit cost reflects the cost of a customer’s access to the gas utility’s supply system, and is comprised of: (1) the marginal capital cost of service lines and Meter Set Assemblies (MSAs); (2) the marginal direct Operations and Maintenance (O&M) costs associated with the installation and service of those assets, as well as other customer support functions; and (3) O&M loaders. All categories of costs are described at pages 5 -10. The costs include capital and O&M costs. Capital costs reflects the facilities and equipment for MSAs and service lines. Customer-related marginal O&M costs are broken into five components: (1) customer services, (2) customer accounts, (3) meters and regulators, (4) service lines, and (5) O&M loaders.

- (b) In the original Long Run Marginal Cost (LRMC) decision for gas utilities, D.92-12-058, the Commission identified Customer-related costs as a functional cost category and discussed the cost elements to be included as Customer-related costs. In D.92-12-058, Conclusion of

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Law # 5 states, "We should adopt for marginal customer costs DRA's rental market approach using service drop-regulator-meter (SRM) investment cost method with adjustments for future replacement and improvement costs." Conclusion of Law #4, lists the policies for calculating marginal cost expenses and loading factors including O&M, Materials & Supplies loader, Administrative and General loader and General Plant loader. Since the adoption of that decision, SoCalGas has consistently followed the Commission's directives as to what Customer-related cost represents and which cost elements to be included in this functional cost category. More recently, the Commission has extensively addressed Customer-related cost and its components for electric utilities in D.17-09-035.

- (c) Generally, fixed and variable costs are defined with respect to level of consumption. The cost elements that do not change with changing level of consumption are considered fixed costs. Variable cost elements change with the level of consumption. With these definitions of fixed and variable costs, Customer-related costs are considered fixed costs as they simply represent the cost of access to the SoCalGas' gas delivery system and do not vary with the level of gas consumption.
- (d) See response to c above.
- (e) See response to c above.

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**QUESTION 2:**

At pages 3-4 of Chapter 9 Testimony in A.18-07-024, SoCalGas states:

“SoCalGas updates the LRMC study presented in prior TCAPs to reflect 2016 actual costs and allocations based on 2016 underlying activities. [Footnote omitted.] These costs are then escalated to 2020 dollars to reflect SoCalGas costs for the first year of the new TCAP cycle. [Footnote omitted.] For the customer-related and Medium and High Pressure Distribution-related functions, the marginal unit costs are then multiplied by the forecasted marginal demand measures to determine the marginal cost revenues.”

- (a) Please clarify the term “in prior TCAPs” and state if the term refers only to the last 2017 TCAP in A.15-07-014.
- (b) Please provide an electronic copy of the LRMC study “in prior TCAPs.”
- (c) Please provide the 2016 actual costs and state the source of the 2016 actual cost data.
- (d) Please clarify the phrase “allocations based on 2016 underlying activities” referenced in the above quoted statement and state the basis of the “allocations.”
- (e) Please provide the escalation rates used for each year to arrive at the 2020 dollars.
- (f) Please state the basis for the reasonableness of the escalation rates in item (b).
- (g) Please cite reference to SoCalGas workpapers which show how the LRMC study was updated to 2020 dollars from the one “in prior TCAPs” and provide the active excel spreadsheets.

**RESPONSE 2:**

- (a) The term “in prior TCAPs” refers to the 2017 TCAP Phase 2 proceeding (A.15-07-014) and the 2013 TCAP proceeding (A.11-11-002). It should be noted that my LRMC study was prepared using new costs and demand measures, even though the LRMC methodology itself is the same as in prior TCAPs.
- (b) Attached are workpapers from the two prior TCAPs, in excel format.

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- (c) The Customer-related actual costs are summarized in the attached workpapers, see excel file: SCG 2020TCAP LRMC Customer Costs.xlsm, tab: cust MUC. In the same file, tab: Meter Cost detail, the MSA costs' data source is the actual 2016 MSA cost data for the various meter sizes, types, and service pressure levels to MSA configurations at the customer level provided by Gas Engineering.

In the tab: Service Cost detail, the service unit costs' data sources are based on 2015 - 2017 data from Gas Distribution. The service unit costs were escalated for labor and nonlabor overheads provided by Accounting & Finance. The 2016 direct O&M costs, tab: cust 8 O&M, tab: OUT-MP\_LRMC, were provided by Accounting & Finance and are based on FERC Accounts 870, 878, and 879, 901 through 905, 907 through 910, 878, 893 and 892.

For the Medium Pressure and High Pressure Distribution-related costs, see attached excel workpapers file: SCG 2020TCAP LRMC Distribution Costs.xlsm, tab: Out\_Investment\_History, distribution unit costs' data sources are based on 2015 - 2017 data from Gas Distribution. The service unit costs were escalated for labor and nonlabor overheads provided by Accounting & Finance. The 2016 direct O&M costs, tab: Out\_MP\_LRMC, were provided by Accounting & Finance and are based on FERC Accounts 874, 875, 887, and 889.

For the O&M loaders, the (1) administrative and general (A&G) expenses, (2) general plant, and (3) materials and supplies (M&S), 2016 FERC form and Accounting data are shown in the attached workpaper file, SCG 2020TCAP LRMC OM loader.xlsm, as noted in the tabs.

- (d) The phrase "allocations based on 2016 underlying activities" is referring to the allocation of costs between customer classes based the activities that are applicable to the specific cost as discussed in Chapter 9 (Schmidt-Pines), pages 7-10 (e.g., for Customer Services O&M is allocated by the total time to complete the orders or the total order volume" for Customer Accounts Collections is allocated by the number of collect and close orders).
- (e) The escalation rates used to escalate 2016 amounts to 2020 dollars are shown in the excel workpaper file, SCG 2020TCAP LRMC OM loader.xlsm, tab: Escalation Factors.
- (f) SoCalGas and SDG&E used the Labor O&M Cost Index, the Total Gas O&M Cost Index (MS) (Non-Labor O&M Cost Index), and the Total Gas Plant, Pacific Region

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produced and published by IHS/Markit Global Insight's (Global Insight) Utility Cost Information Service in developing escalation factors. For this TCAP, the escalation factors reflect Global Insight's forecast as of first quarter of 2017. A.17-10-008 (2019 GRC), Exhibit SCG-40, SoCalGas Direct Testimony of Scott R. Wilder, October 6, 2017. used Global Insight's forecast as of first quarter of 2017 to escalate 2016 dollars into 2019 dollars.

- (g) The 2016 costs were updated. These costs were escalated to 2020 dollars. See response provided to (a) above.